



PRE-BUDGET REPORT
SUMMARY OF KEY POINTS AND POLICY ANALYSIS

9TH DECEMBER 2009

Summary

The pre-budget report was published on 9th December. The PBR is historically a precursor of the Government's plans for the full budget next Spring, however this year's PBR is a key set-piece for the Labour Government, with a number of new measures for the low carbon sector announced.

Key points:

- 1. Feed in Tariffs to provide on average £900 per annum to householders. This income will be tax-free for householders.**
- 2. £400 million additional support for offshore wind projects.**
- 3. Doubling of the funding commitment to support four Carbon Capture and Storage demonstration projects**
- 4. Ensure the UK is ready to face the challenges of the transition to a low carbon economy by creating Infrastructure UK;**
- 5. £140 million of additional venture capital for innovative low-carbon businesses, made available through the Carbon Trust's Innovation and Investment Fund and Venture Capital Fund.**
- 6. the Greener Boiler Incentive scheme offering £400 to households with the least efficient working boilers to upgrade to the highest efficiency models, saving households around £230 a year in energy bills;**
- 7. £200 million more for Warm Front and increasing energy company support for the poorest through discounted tariffs from £150 million to £300 million each year by 2013-14.**

Clean Energy Cashback - Feed in Tariffs

As expected, the Chancellor announced that income from Feed in Tariffs would not be taxable through income tax. **Treasury officials have subsequently confirmed this position to JDS.** The exemption applies only to the recipient of the FiT's where the electricity generated is primarily for their own use. The Treasury also state that if necessary, legislation to ensure this treatment will be introduced with effect from 1 April 2010.

In terms of technologies covered, The Chancellor referred directly to solar panels and wind turbines, but made no mention of micro-CHP inclusion in a FiT.

The Chancellor also stated that homes with micro-wind, or solar would receive on average £900 per year in Feed-in-Tariff reward. For a solar PV installation, generating 2500 kWh, this would equate to 36p/kWh and is consistent with the modelling included in the Renewable Financial Incentives Consultation.

Treasury officials confirmed that the Chancellor's referral to the figure used in the RFI Consultation may be a response to recent media speculation. The line taken is that a decision on rates has not yet been taken. It might be inferred that using this figure in the PBR speech increases the likelihood that the proposed FiT levels will remain as set out in the consultation.

Clean Energy Cashback - Renewable Heat Incentive

The PBR sets out the Government's view that it wants all households to play a part in generating renewable energy. There is recognition that low-income households may still find it difficult to meet upfront costs. **Building on the experience of pilot projects for Pay as You Save financing and Warm Front, the Government will consult next year on measures to help low-income households take advantage of clean energy cash-back.**

Carbon Capture and Storage

The PBR announces a doubling of its commitment to CCS demonstration projects. Government intends to phase in these projects over the period 2014-18. The Government has introduced legislation in this Parliamentary session for a mechanism to fund these projects through contributions from electricity suppliers. These enabling powers will be capable of raising funds to retrofit CCS onto any generating units of the power station not fitted with the equipment from the outset.

Infrastructure UK

Infrastructure UK, will be established to help bring together commercial and financial expertise and help the Government identify and attract further investment in infrastructure, including low-carbon energy projects.

Infrastructure UK will also support the Government in its work to ensure the energy market framework can most effectively deliver a fair deal for the consumer and the low-carbon investment needed in the long term. Their contribution will focus on the commercial and financing aspects of energy investments. This will explore, amongst other options, the case for a low-carbon investment institution.

Infrastructure UK will also provide a route for Government investments to support the deployment of low-carbon energy infrastructure. The Pre-Budget Report announces the Government's intention to invest €100 million (£90 million) in the 2020 European Fund for Energy, Climate Change and Infrastructure, to be overseen by Infrastructure UK.

It is likely that Infrastructure UK will be governed as a quasi-independent non-departmental public body – presumably set up by and governed through DECC

Green Boiler Incentive

On the back of the success of the Car Scrappage Scheme the PBR announces a similar incentive for inefficient boilers proposing a £400 incentive to help up to 125,000 households upgrade their boiler. **Initially households that qualify will be those buying new boilers or renewable heat units in order to replace a G-rated boiler. It will be important to ensure all low carbon heating options are eligible for this payment.**

In replacing inefficient, outdated boilers, the Government believes that homeowners can reduce energy bills by up to £230 a year. The installation of a new heating system will help reduce domestic heating Carbon emissions which currently account for 13 per cent of UK's entire emissions.

The scheme will drive consumer uptake for new boilers and renewable heat units which will assist in these product in reaching the mass markets that the Government needs in order to meet EU 20:20 targets.

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The Government, are intent on implementing the scheme after consulting with industry in order to begin as soon as possible in 2010

This is a long awaited incentive, but will it be enough to persuade householders to switch, when the cost of a new boiler could be £3,000. Also, is it the most appropriate way to distribute this funding when other methods such as Council Tax rebate may provide more bang for buck.

Vulnerable Customers

£150 million extra will made available through Warm Front, which the Government hopes will help an additional 75,000 households in 2010-11.

There will also be increase in the amount of help provided by energy companies through discounted tariffs for low income households from £150 million currently to £300 million a year by 2013-14. These resources could provide discounts for an additional one million households. The Government is bringing forward new legislation to mandate the provision of this support from the end of the current voluntary agreement in March 2011.

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